



Monthly Pulse Check

Economy. FI. FX

April 19th 2023

For contact details and classification of the report see the [last page](#)

Our view in a nutshell ($\geq 1Y$ horizon) & major forecasts

Macro outlook

- ❖ There is a clear difference between the US and Eurozone macro outlooks. The former has worsened lately (a streak of disappointing readings was released). The latter remains still quite robust with soft indicators rebounding notably. At the same time, Europe seems to be less susceptible to a possible credit crunch as opposed to the US. Finally, the Chinese economy bounced back sharply in Q1 driven by lifting COVID restrictions. In our view, this rebound should not be extrapolated.
- ❖ Inflation keeps playing the most important role in Poland. While it subsided in March, it occurred almost solely owing to base effects. Momentum remains robust, hence we see small odds to see a single digit print by the year-end. GDP growth impetus seems lackluster, albeit abundant tax refunds help offset this impact.

Monetary policy: Fed, ECB, NBP

- ❖ Fed: Interest rates were hiked by 25bps last month, though the forward guidance was clearly and understandably softened. While the whole banking sector story (related mainly to the SVB) has basically passed, credit conditions remain extremely tight, pointing to a possible credit crunch in the months to come. The market pricing sees the Fed to hike by 25bps in May and this is it. We agree. We keep our forecast of first cuts in H2 2023
- ❖ ECB: The odds for further monetary tightening has been restored in the Eurozone since the banking crisis story. The market now sees additional 75bps of hikes by September. We are somewhat less hawkish and see the last 50bps hike in May. Risks seem to be tilted to the upside though given the sheer persistence of inflation.
- ❖ NBP: The market has erased ~ 40 bps of rate cuts since the mid-March and now prices in ~ 50 bps of cuts by the year-end. Considering the current and projected inflation momentum we doubt this scenario is likely to materialize. Instead, we do not see any rate cuts this year.

FX Market

- ❖ The zloty remained strong against its peers over the past month and thereby continued its appreciation streak. A short-term rate differential did not play a major role as both EUR and PLN rates moved similarly since the mid-March. In our view, the PLN strength may be correlated with money flows into the POLGBs market. If market participants start doubting any rate cuts this year, there could be some space left for the PLN to appreciate. On the other hand, we do not see too many reasons that could reverse the latest PLN strength in a meaningful way.

		2022	2022	2022	2022	2023	2023	2023	2023	2022*	2023*	2024*
		Q1 F	Q2 F	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F	Q1-Q4	Q1-Q4	Q1-Q4
GDP y/y	%	8,6	5,8	3,6	2,0	-1,3	-0,3	0,7	2,6	4,9	0,4	2,5
Individual consumption y/y	%	6,7	6,4	0,9	-1,5	-2,9	-2,7	-1,1	2,6	3,0	-1,0	3,1
Investment y/y	%	4,7	6,6	2,0	4,9	3,0	0,6	-1,0	-2,0	4,6	0,2	2,3
Inflation rate (eop)	%	11,0	15,5	17,2	16,6	16,2	13,0	11,3	10,0	14,3	13,3	8,8
Unemployment rate (eop)	%	5,8	5,2	5,1	5,2	5,5	5,4	5,5	5,8	5,2	5,8	5,7
NBP repo rate (eop)	%	3,50	6,00	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,00
EUR/PLN (eop)	%	4,65	4,70	4,86	4,69	4,70	4,72	4,62	4,57	4,72	4,65	4,52
USD/PLN (eop)	%	4,20	4,48	4,95	4,38	4,35	4,41	4,13	4,01	4,50	4,22	3,75

F - forecast

* yearly average for inflation rate, EUR/PLN and USD/PLN

Highlights of this edition

- ❖ We got a bunch of [disappointing readings](#) from the US economy over the past weeks. They showed subsiding price pressures (seen both in soft and hard data) coupled with the gloomier outlook for the industry sector. Thus, it is getting more evident that disinflationary forces are beginning to spread across the economy. However, there is some way to go in order to get inflation back to the target. After the latest hike by 25bps delivered by the Fed, we expect the same magnitude move in May. In our view it will be the last hike in this cycle. In addition, we are still mindful of a significant tightening of credit conditions, which are likely to do some disinflation work for the Fed.
- ❖ As opposed to the US, [the inflationary backdrop looks worse in the Eurozone economy](#). Admittedly headline inflation keeps falling, core price growth keeps increasing. It basically shows how persistent inflation really is. At the same time, the macro outlook seems to be better. In such a scenario, the ECB could be willing to keep a tight monetary stance 'higher for longer'. It confirmed this thesis last month when it delivered a 50bps in the midst of the banking sector turmoil. As such, we expect another 50bps rate hike in May and then a pause.
- ❖ Last month brought [another set of weak macro data from the Polish economy](#). The biggest negative surprise came from [retail sales](#), and the retail sector itself seems to be on the weakest footing for the time being. Consumers are still burdened with high interest rates and deeply negative real wage growth. This will evolve in the second half of 2023. We assume that the past quarter showed a trough when it comes to growth momentum this year.
- ❖ In line with market expectations, [Polish inflation came down in March](#) by more than 2pp. That is all for those looking at inflationary processes in Poland through rose-colored glasses. Core inflation accelerated while headline inflation momentum remains extremely high (basically no improvement has been seen yet compared to the previous year). Therefore, we feel quite comfortably with our current forecast assuming inflation at ~10% at the year-end.
- ❖ The above-mentioned forecast looks reasonable when we look at [inflation expectations in Poland](#). We basically did our best to express them in a number. The takeaway is clear: 12-month ahead inflation expectations stand between 10% and 15%. It means that the real (ex-ante) interest rate remains negative. It supports our view that inflation eradication will take a lot of time.
- ❖ Over the past few weeks, [the Ministry of Finance raised a lot of funds](#). It went both to foreign and domestic investors and the result was quite successful. On top of that, we got some details how the fiscal consolidation process might look like, though there are still a lot of unanswered questions left. Finally, the Ministry of Finance confirmed that the 0% VAT rate for food products will stay in place until the end of 2023.
- ❖ [The Polish zloty](#) continued its winning streak over the past few weeks. Again, it strengthened more than its peers, and the result is even more impressive when we look at a longer-term timespan. Some of this strength may stem from inflows to either financial or non-financial investments. In turn, looking at the REER one might notice that the PLN saw its first decline since mid-2022, thereby decreasing pressure on trade competitiveness.

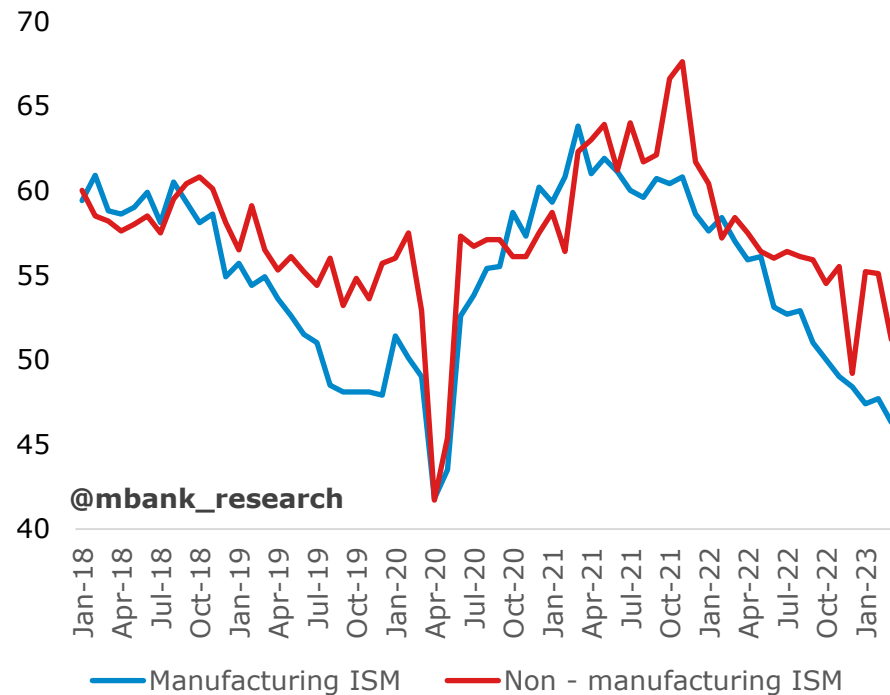


Global economy



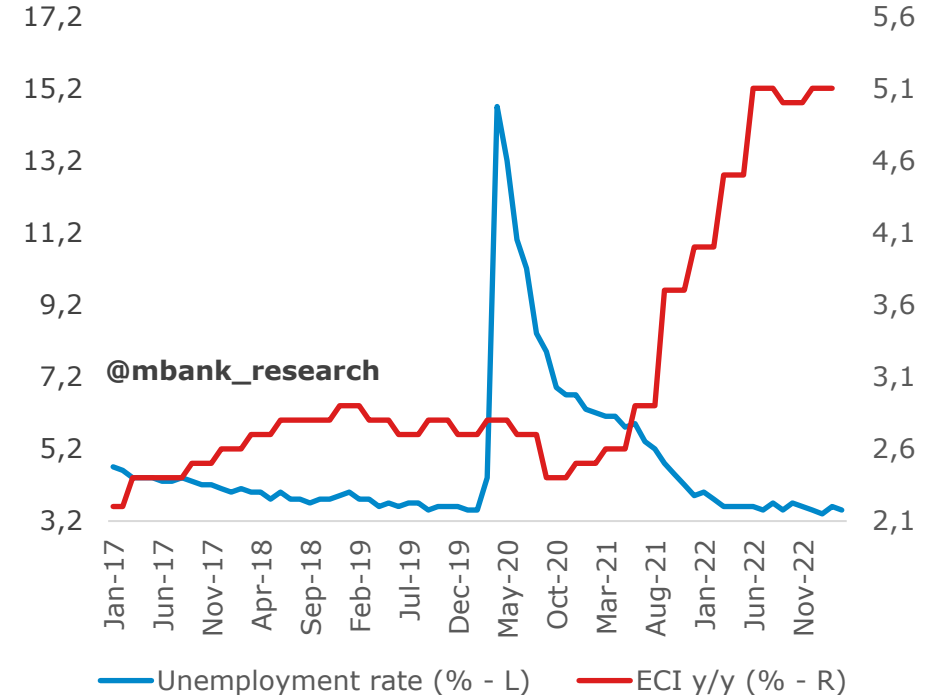
USA: Economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM.

Labor market: wages & unemployment rate

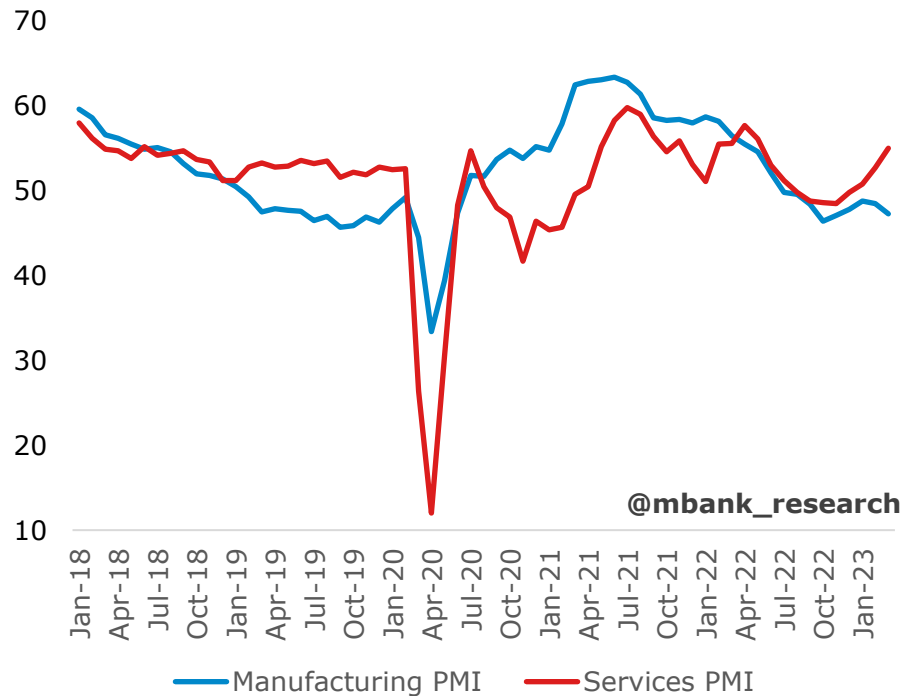


Source: FRED.

A degree of uncertainty regarding the US economic outlook remains extremely high. We got a bunch of disappointing readings in the past weeks: weaker ISMs (incl. subsiding price subindices), a miss in the ADP report as well as a clear decline in JOLTS. On top of that, the latest NFP release showed a continued downward move of wage growth. Moreover, the March jobs report brought also the first decrease of employment in the goods sector since April 2021. Finally, the March inflation data turned out to be in line with market expectations. All in all, the underlying price pressure seems to be declining as evidenced by a fall of services core prices (ex. rents) momentum. While this price growth remains still elevated, we are undoubtedly making strides. What will the Fed do in May? We bet on a 25bps rate increase (the last one), though market participants seem to be poised between none and 25. Tightening credit conditions (an equivalent of 'some' Fed hikes) is where everyone ought to focus on beyond May.

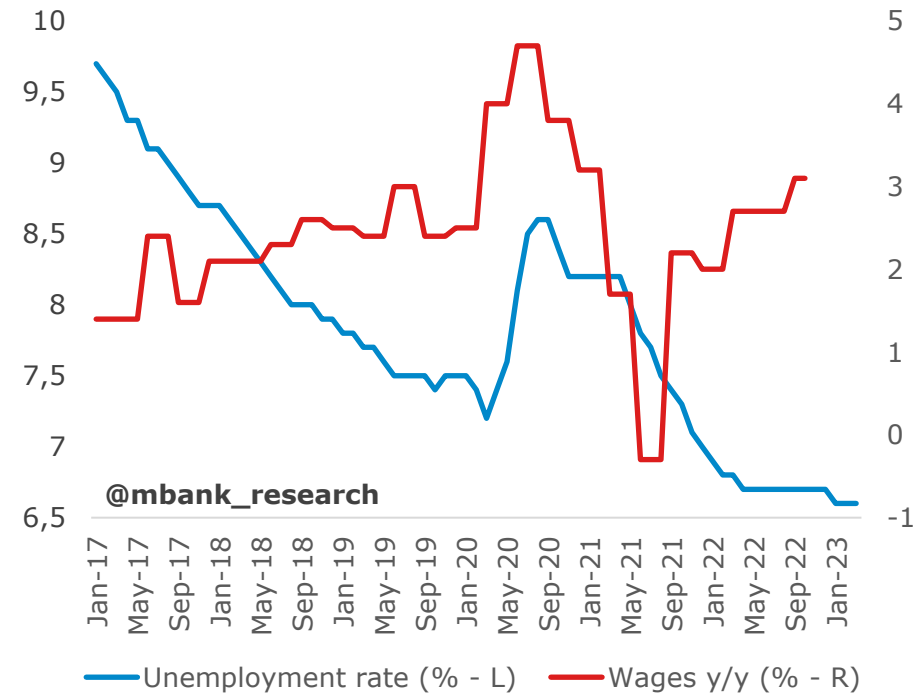
Euro area: Economy health check

ISM PMI: manufacturing & services



Source: Markit.

Labor market: wages & unemployment rate

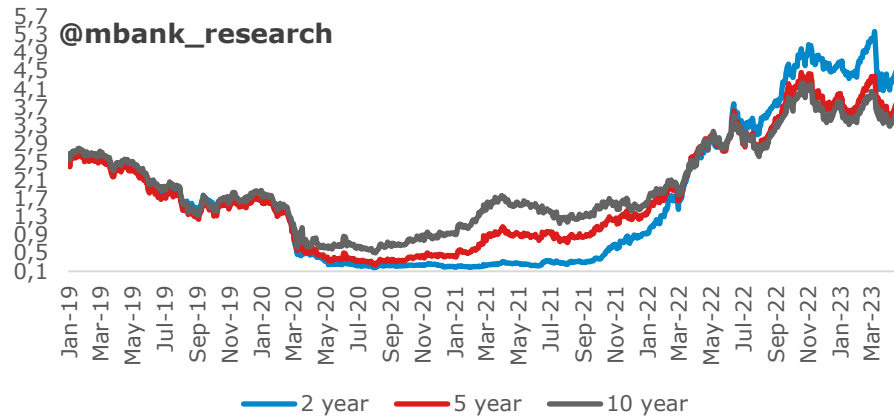


Source: Eurostat.

It is tougher to notice disinflationary forces in case of the Eurozone. While headline inflation is losing momentum, we have yet to see the same in core prices. Moreover, key core inflation metrics basically increased in the past month mirroring inflation persistence. Simultaneously, the economic outlook looks better than in the US, hence an environment for disinflationary forces to develop seems less favorable. Having this in mind the ECB did not chicken out in March and hiked rates by 50bps. On top of that, it also announced that it stands ready to inject more liquidity if needed (recall the SVB story here). It will be also assessing an impact of TLTRO repayments on the banking sector liquidity. That is history though, at least to some extent, because recently we got some media revelations that ECB policymakers are calling for a full halt of APP reinvestments. In practice, the average pace of balance sheet reduction could almost double (this should kick in from Q3 onwards). We expect a 50bps rate increase in May and that is it.

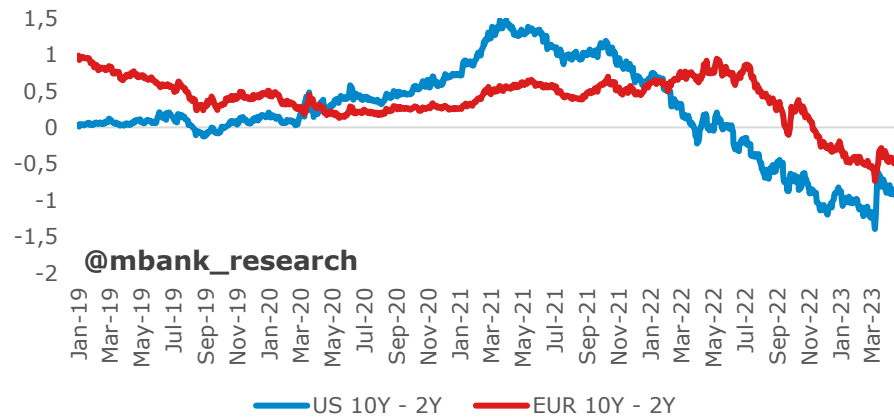
Global rates

US swap rates (%)



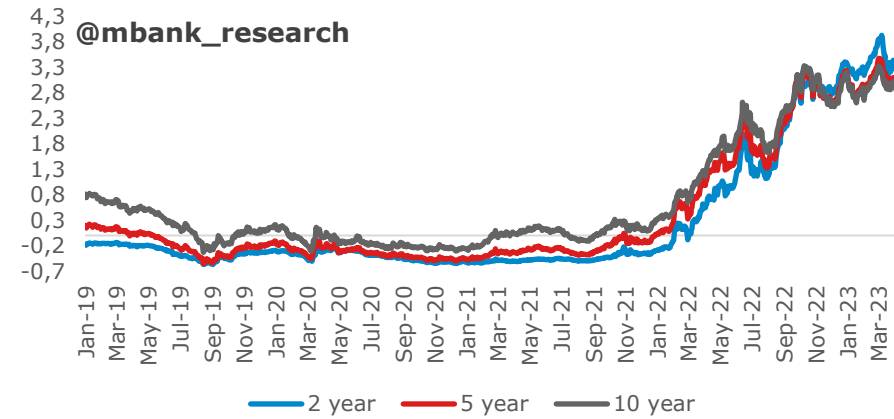
Source: Bloomberg.

Swap spreads (10Y-2Y. p.p.)



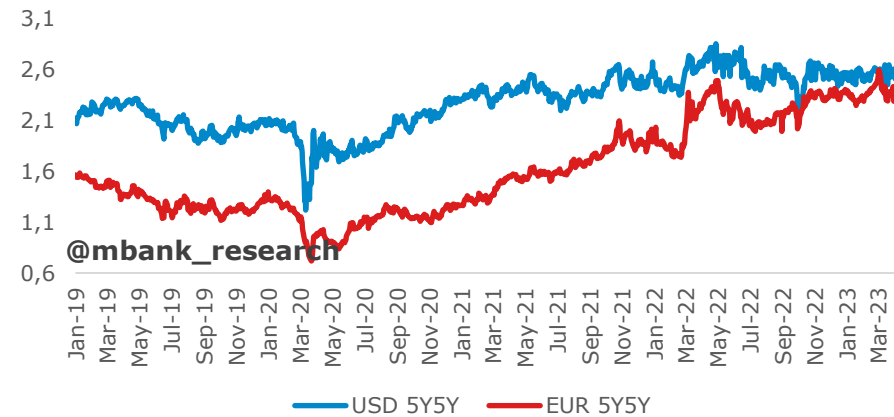
Source: Bloomberg.

EU swap rates (%)



Source: Bloomberg.

US and EZ inflation expectations (%)



Source: Bloomberg.

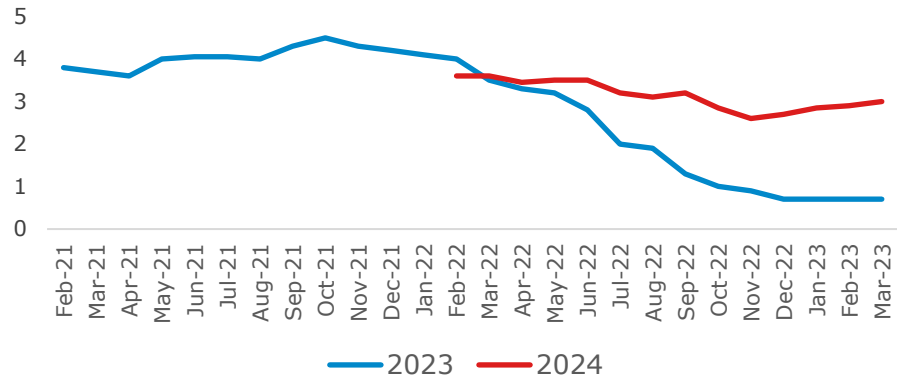


Poland



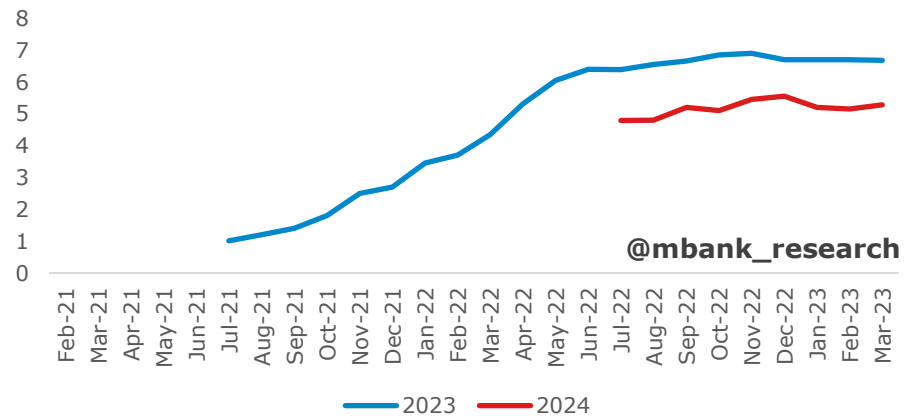
Poland: What is expected?

Consensus tracker: GDP growth (% y/y. annual avg)



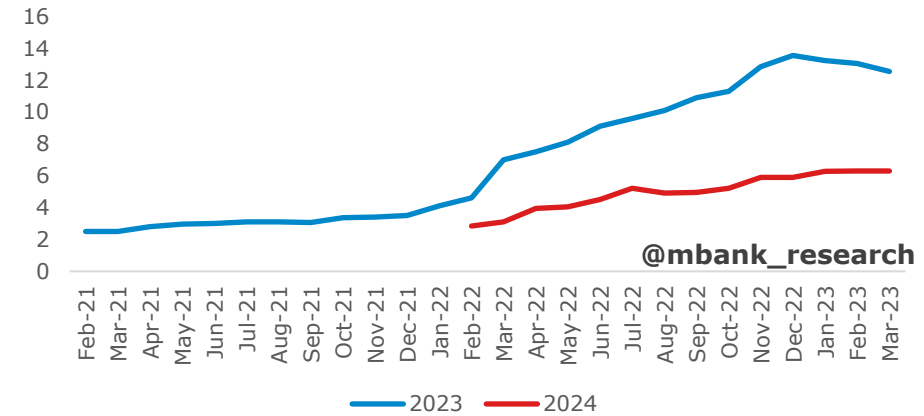
Source: Bloomberg.

Consensus tracker: NBP ref. rate (% end of period)



Source: Bloomberg.

Consensus tracker: CPI inflation (% y/y. annual avg)



Source: Bloomberg.

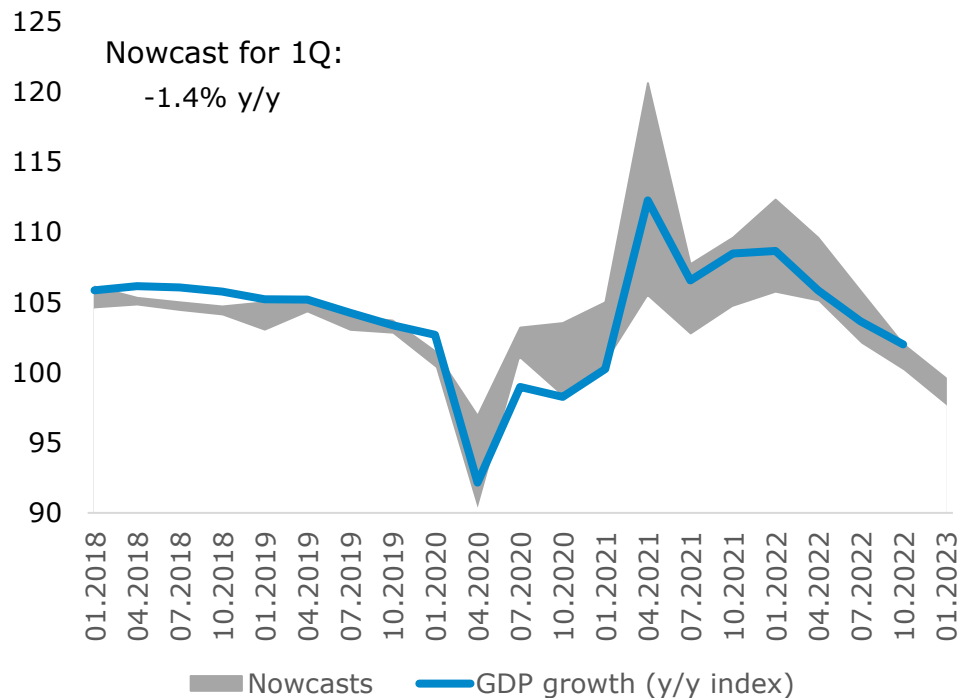
Rate changes priced in by FRA (bps)



Source: Bloomberg.

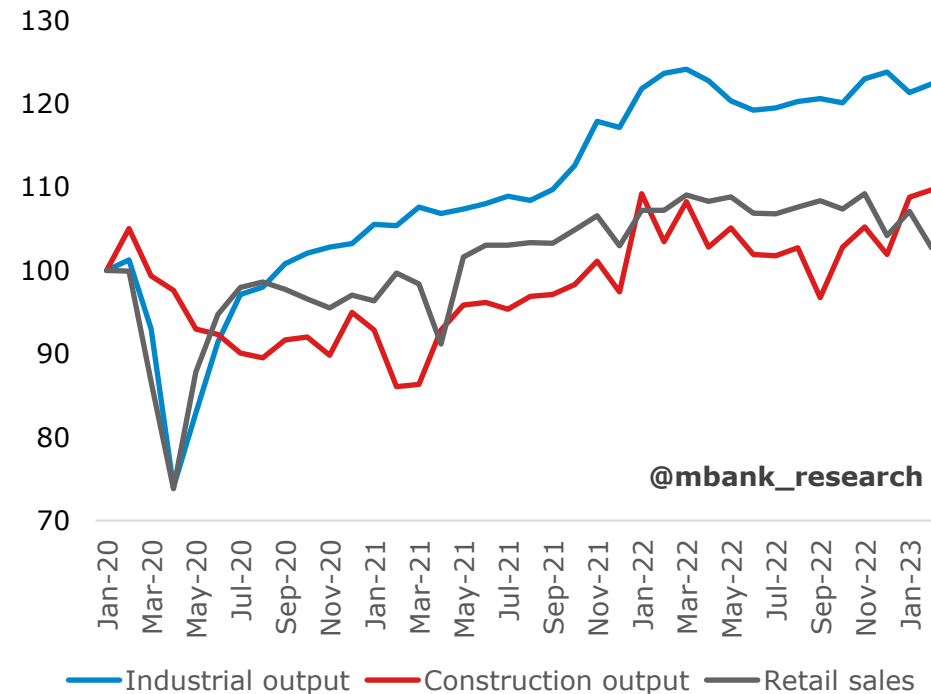
Poland: What monthly prints told us recently?

GDP forecast



Source: Own elaboration.

Seasonally adjusted, Jan20 = 100

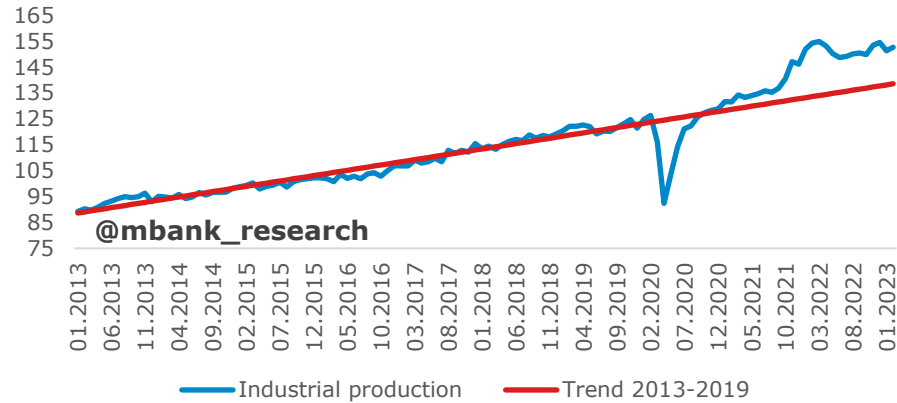


Source: Statistics Poland.

The real economy is slowing down. This is most evident in real retail sales, which fell as much as 5% y/y in February. There are some reasons for the consumer's weakness, but inflation is the most important one (nominal wages are surging, but not keeping up with price increases). Another reason for the weak sales is a high base from the previous year (the war outbreak resulted in additional purchases, especially food and fuels, then purchases of refugees and for refugees). However, don't be tricked by the narrative that it's just the base - monthly seasonally adjusted indicators are also slowing. Industrial production behaves slightly better (energy...). It is weakening but not in such a spectacular way as retail sales. Still, we have yet to see the realization of the most prominent risks (reduction of inventories, a global slowdown). Contrary to gloomy moods seen both in retail sales and industrial output, construction recorded undoubtedly the best yearly outcome. This was probably partly due to a base effects, mild weather and partly because of lags in the investment process.

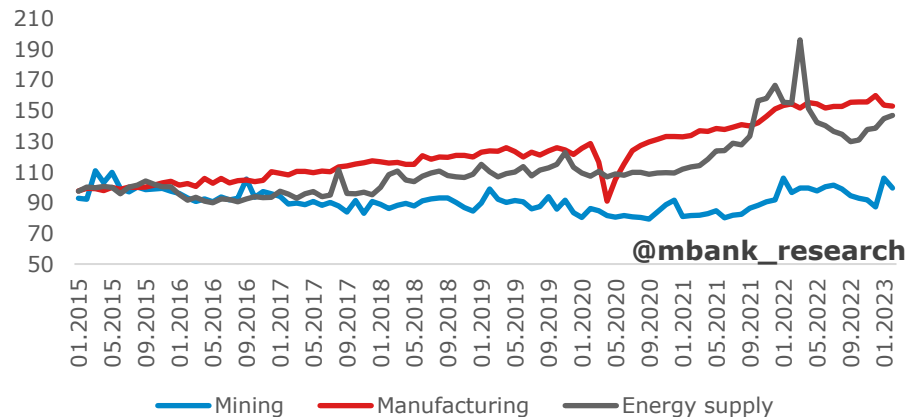
Poland: Industrial output

Industrial production (index 2015 = 100, sa)



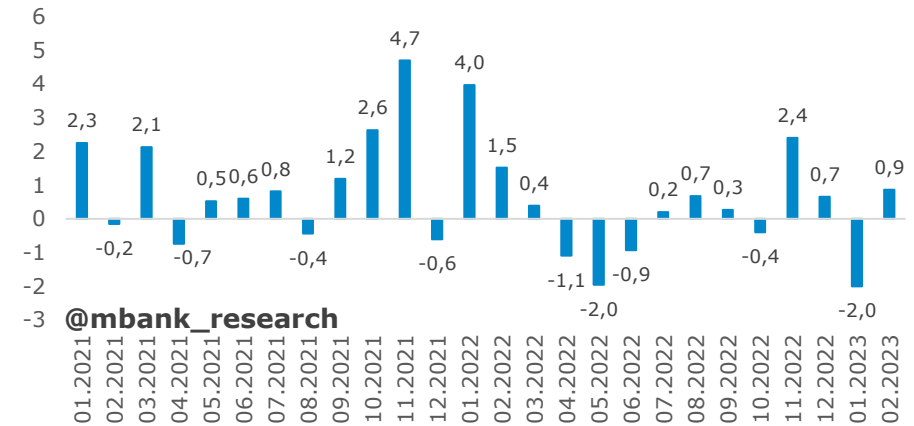
Source: Own elaboration based on Statistics Poland.

Main categories (index 2015 = 100, sa)



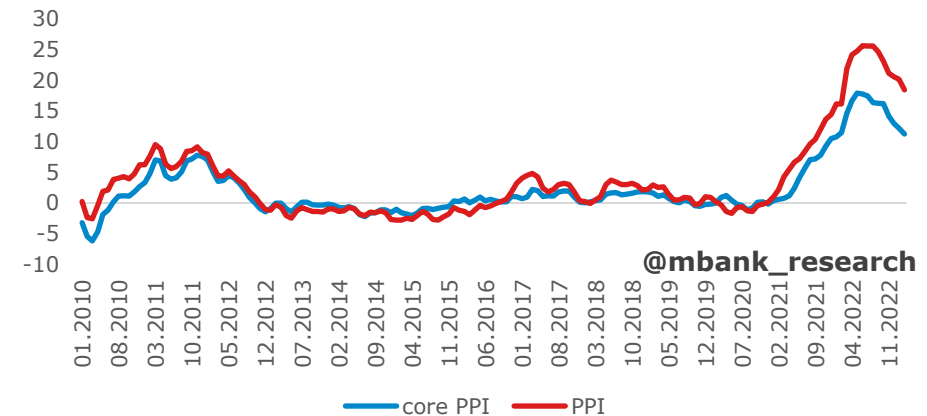
Source: Own elaboration based on Statistics Poland.

Momentum (m/m growth, seasonally adjusted)



Source: Own elaboration based on Statistics Poland.

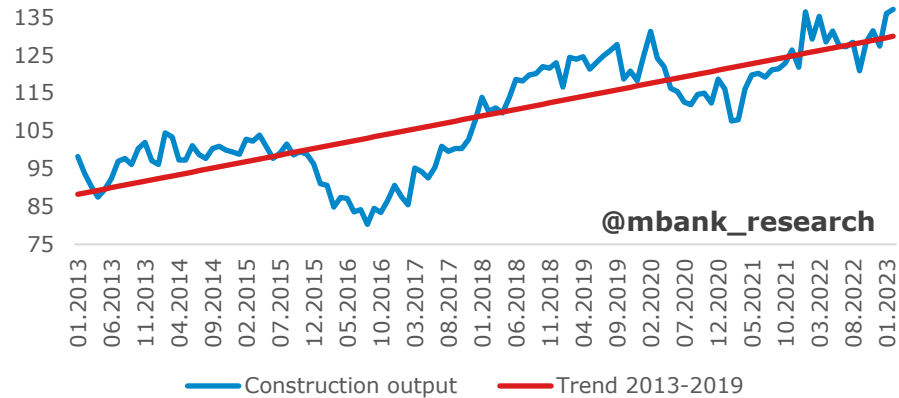
Producer prices (% y/y)



Source: Own elaboration based on Statistics Poland.

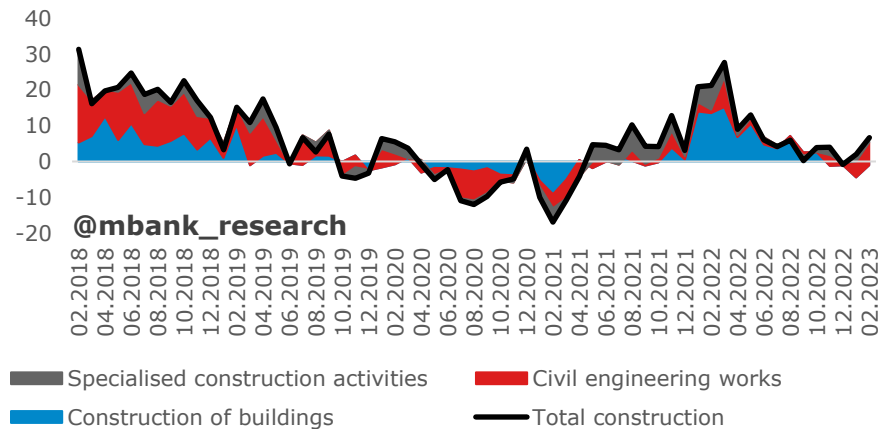
Poland: Construction

Construction output (index 2015 = 100, sa)



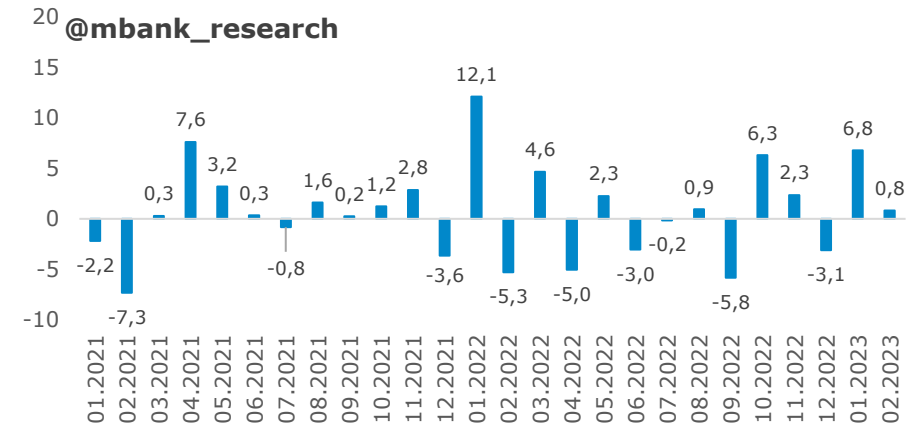
Source: Own elaboration based on Statistics Poland.

Contribution to y/y growth



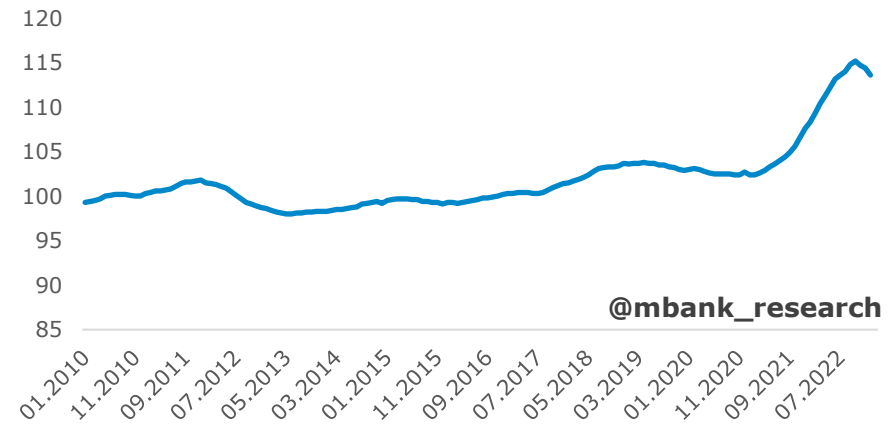
Source: Own elaboration based on Statistics Poland.

Momentum (m/m growth, seasonally adjusted)



Source: Own elaboration based on Statistics Poland.

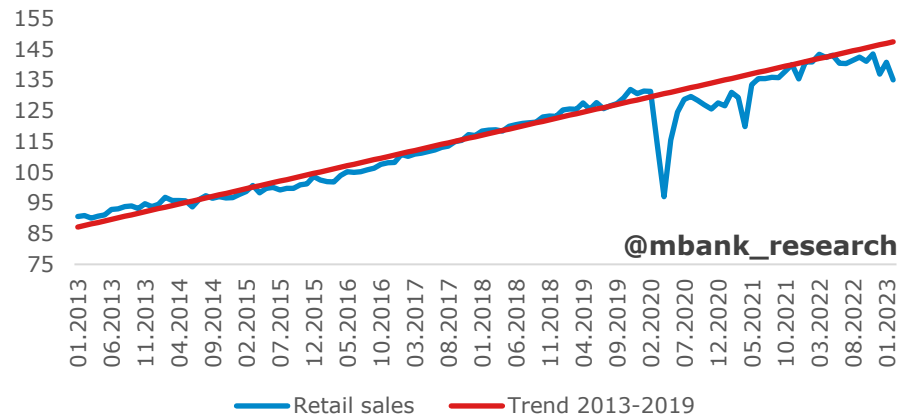
Construction prices (previous year = 100)



Source: Own elaboration based on Statistics Poland.

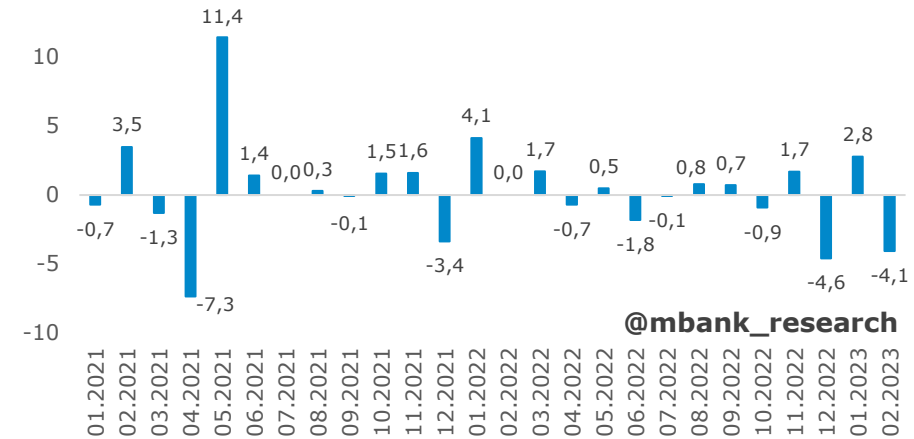
Poland: Retail sales

Retail sales (index 2015 = 100, sa)



Source: Own elaboration based on Statistics Poland.

Momentum (m/m growth, seasonally adjusted)



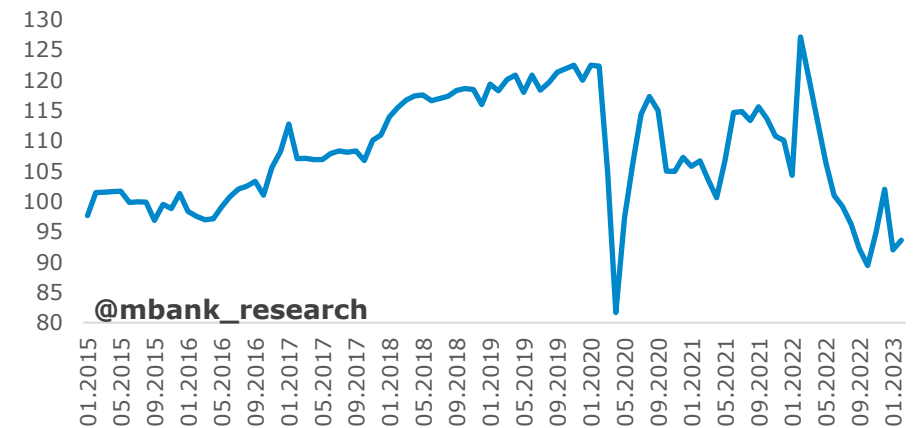
Source: Own elaboration based on Statistics Poland.

Retail sales - Food, beverages & tobacco products (index 2015 = 100, sa)



Source: Own elaboration based on Statistics Poland.

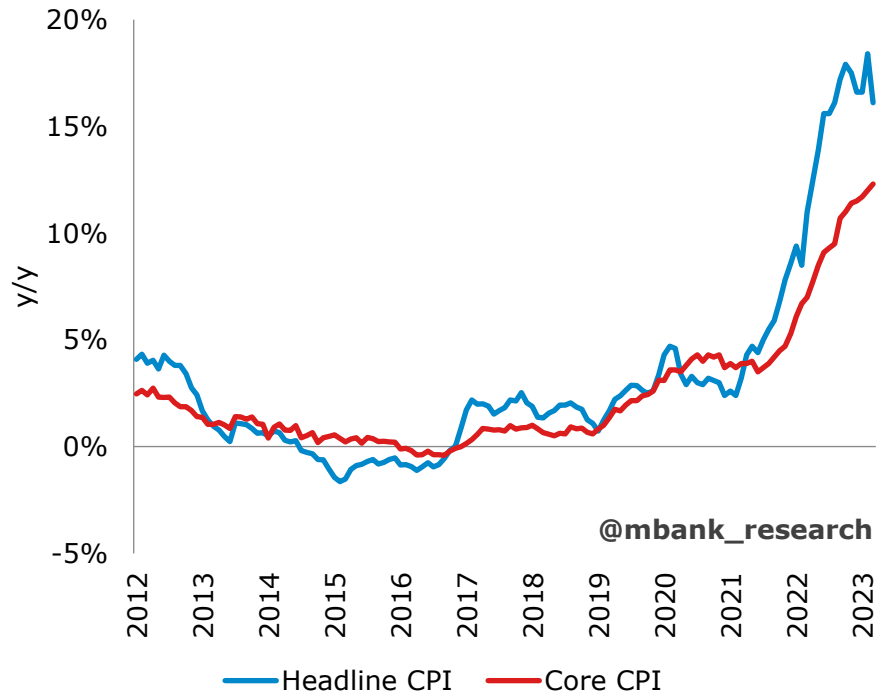
Retail sales - Solid, liquid and gaseous fuels (index 2015 = 100, sa)



Source: Own elaboration based on Statistics Poland.

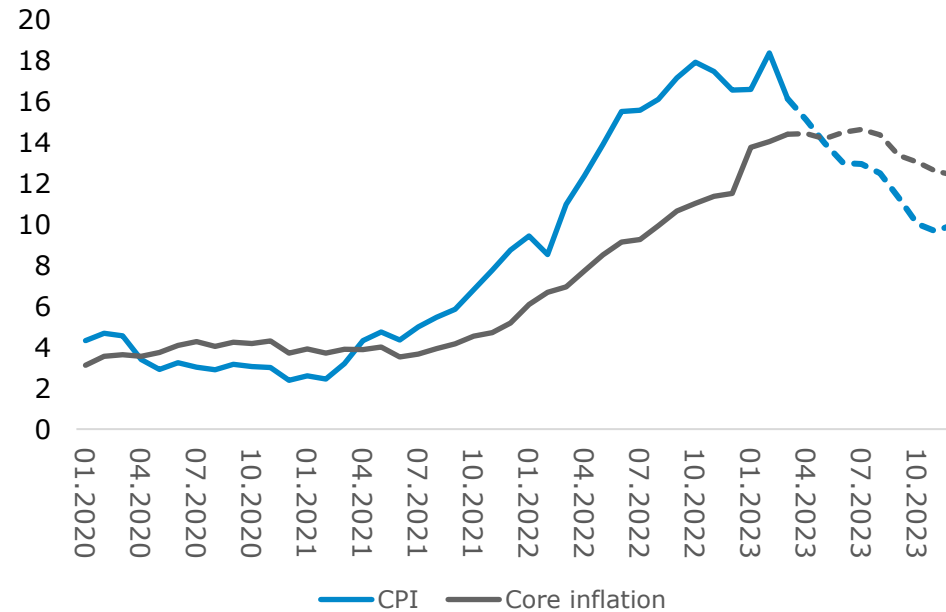
Poland: How do inflationary trends look like?

Headline inflation, broad perspective (% y/y)



Source: Own elaboration based on Statistics Poland.

Inflation forecasts (% y/y)

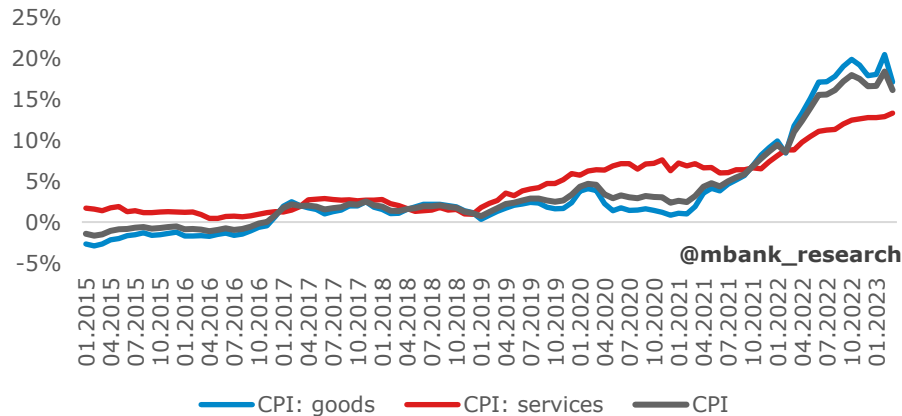


Source: Own elaboration based on Statistics Poland, NBP.

Inflation declined in March to 16.1% y/y (in February the overall CPI stood at 18.4% y/y). But lower inflation was just a result of base effects and momentum remained remarkably strong. Upcoming lower yearly readings are also expected to be largely driven by statistical effects. Looking beyond the oncoming months it could be getting harder to record strong declines. We still believe that year-end inflation will be higher than currently assumed by the majority of the MPC. Basically, we think that reaching a single digit print by the year-end will be very challenging (especially taking into account NBP's forecasts for the real sphere). This will be especially difficult as core inflation keeps climbing (12.3% y/y in March). There is no slowdown in monthly dynamics – neither in broad core inflation, nor in detailed categories.

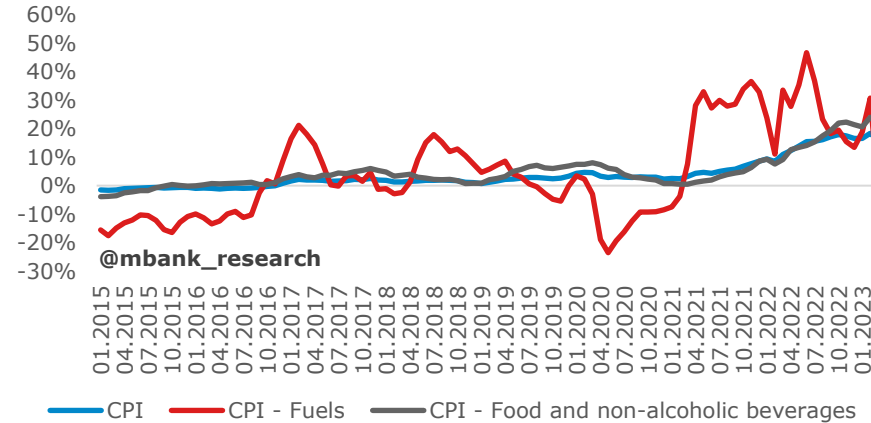
Poland: Inflation tracker (additional measures)

Goods and services prices (% y/y)*

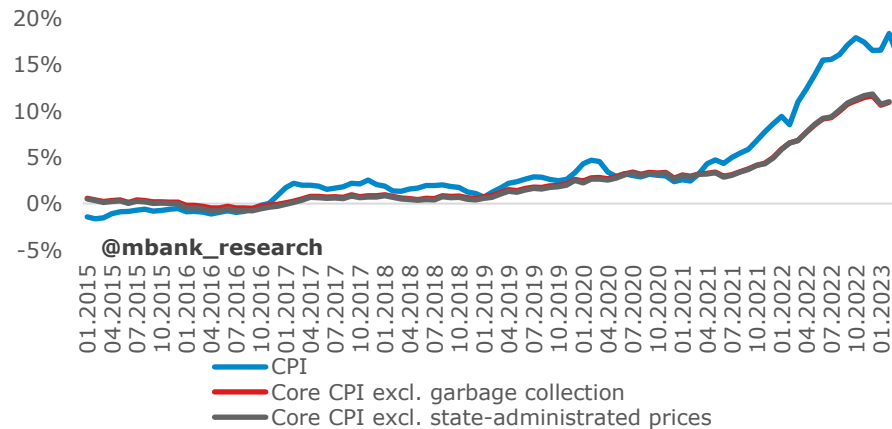


Source: Own elaboration based on Statistics Poland.

Food and fuel prices (% y/y)

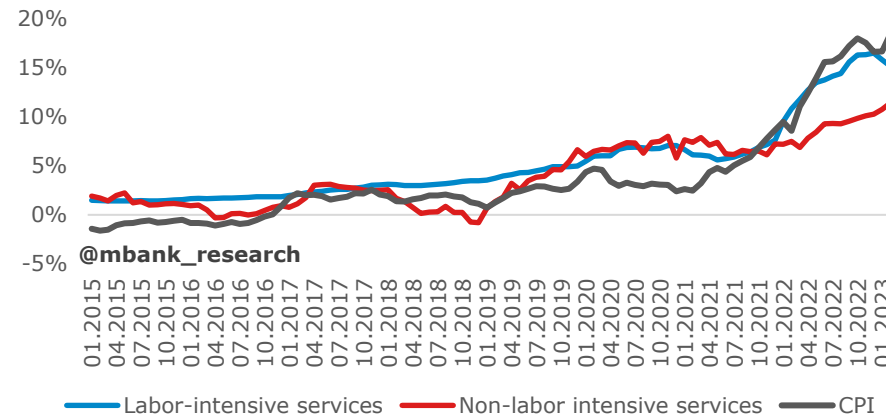


Core inflation without garbage collection fees and without administrated prices (% y/y)



Source: Own elaboration based on Statistics Poland.

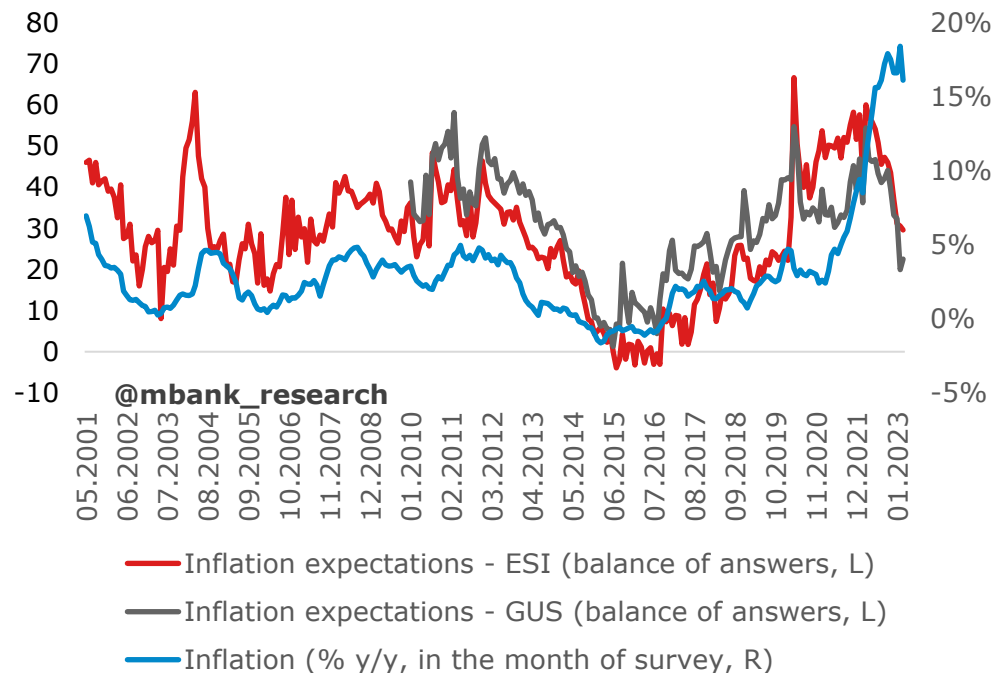
Services (% y/y)



Source: Own elaboration based on Statistics Poland.

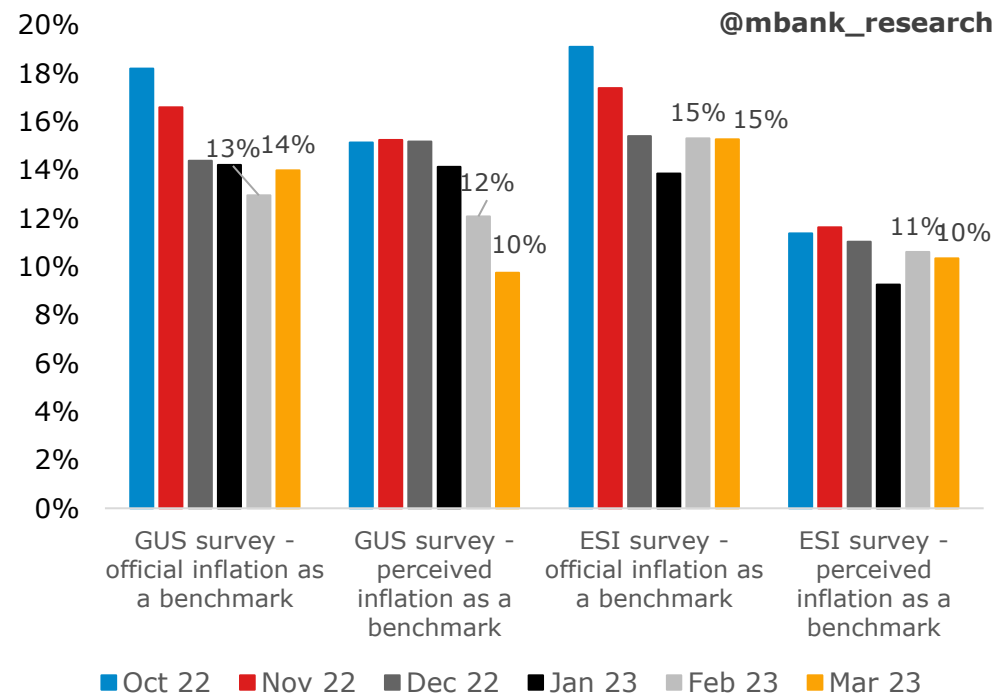
Poland: Inflation expectations

Consumer inflation expectations in survey qualitative data



Source: Own elaboration based on Statistics Poland.

Quantified consumer inflation expectations

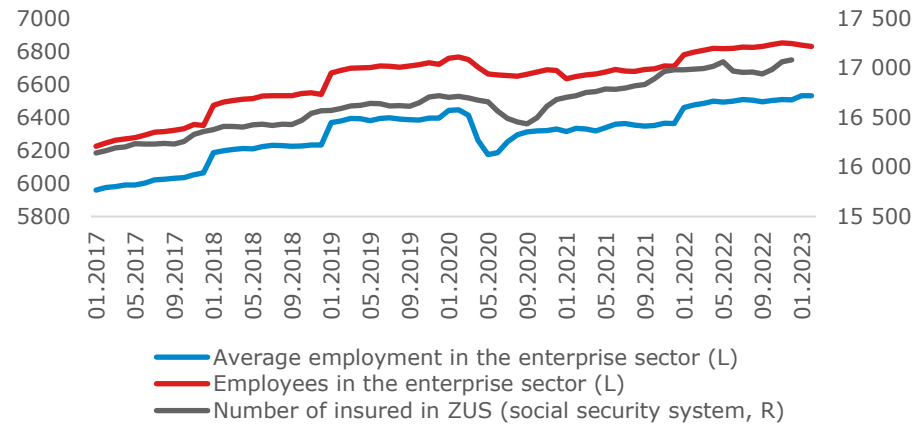


Source: Own elaboration based on Statistics Poland, NBP.

Both the Statistics Poland (GUS) and the European Commission (ESI) publish inflation expectations for Poland only in the form of percentages of consumer answers. Some of them expect the faster pace of price increases, some slower, but we do not know an exact number: how high inflation is expected in the next 12 months? That is why we decided to quantify inflation expectations on our own using some probabilistic methods. There are many of them. They differ in their approach to the assumed distribution of inflation expectations in population, or inflation taken as a benchmark for determining further price increases. We will leave aside the technicalities, they can be found on our website ([link](#), only in Polish). **Quantified inflation expectations for CPI in 12 months ahead stay in the range of 10-15%.** Regardless of the quantification method chosen, inflation is significantly above the NBP target. In each scenario, the real (ex-ante) interest rate remains negative. Each number finally allows us to claim that expectations have clearly de-anchored. It is absolutely crucial to see inflation expectations falling along with CPI numbers. Without it, the same for higher inflation min-term is gaining traction.

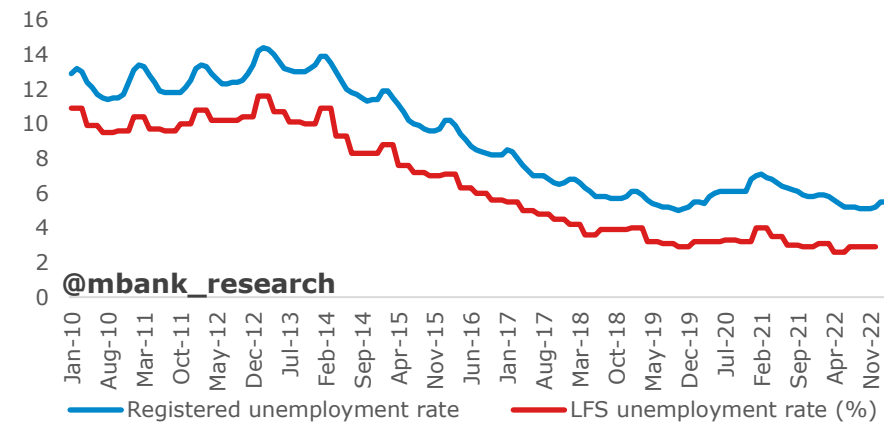
Poland: Labor market tracker - employment

Employment



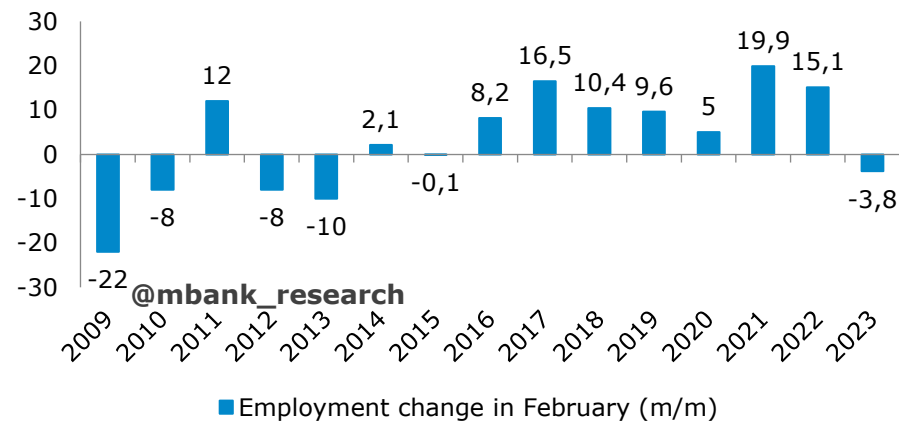
Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

Unemployment rate



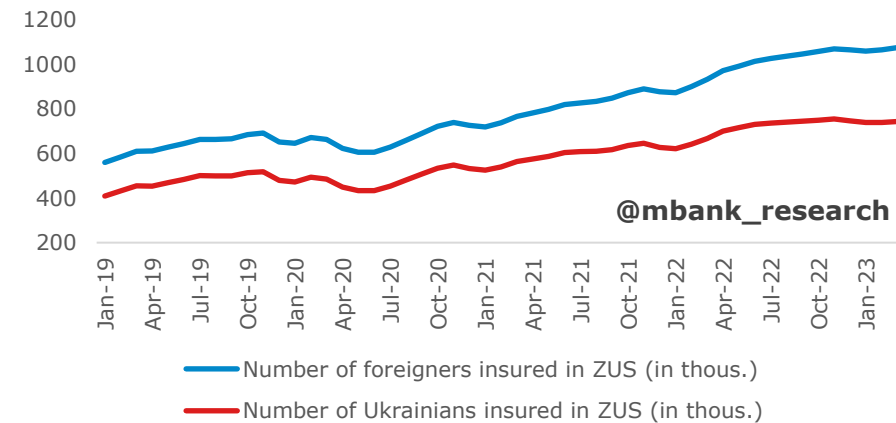
Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

Monthly employment change (in thousand jobs), enterprise sector



Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

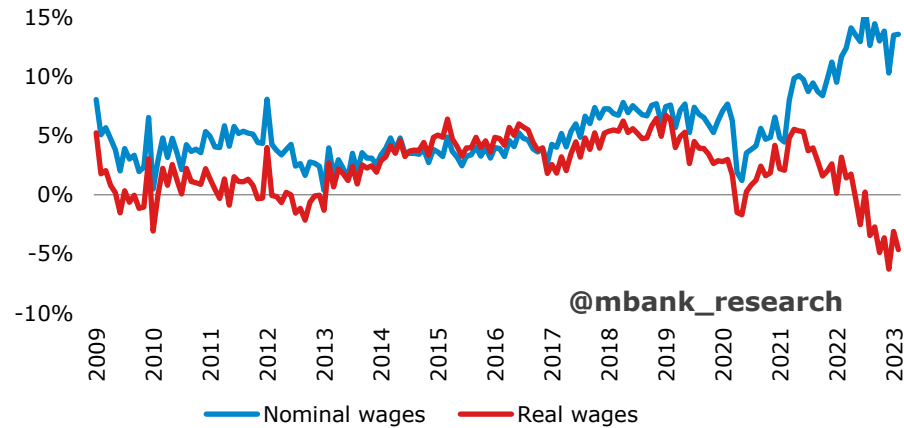
Immigration in the labor force



Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

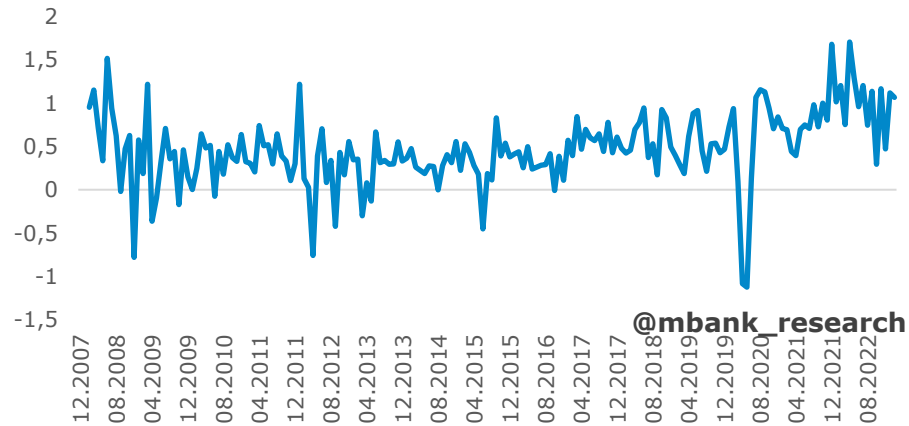
Poland: Labor market tracker - wages

Wage growth (y/y, nsa)



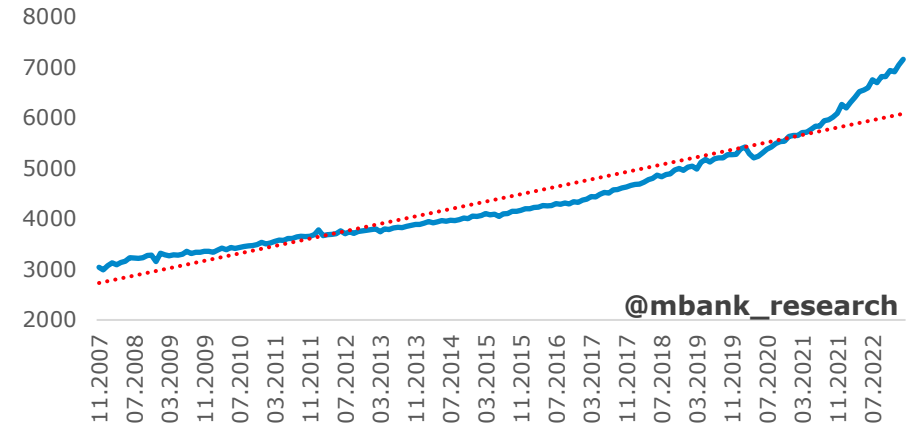
Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

Momentum of average monthly wage in enterprise sector (m/m, 3m average, sa)



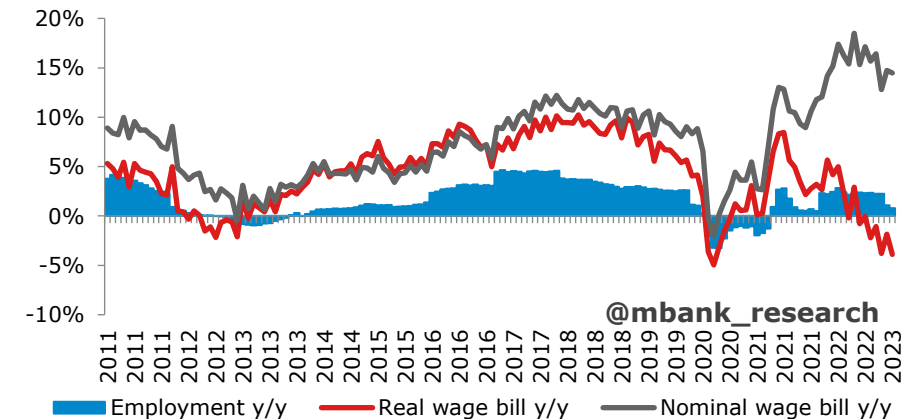
Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

Average monthly wage in enterprise sector (in PLN, sa)



Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

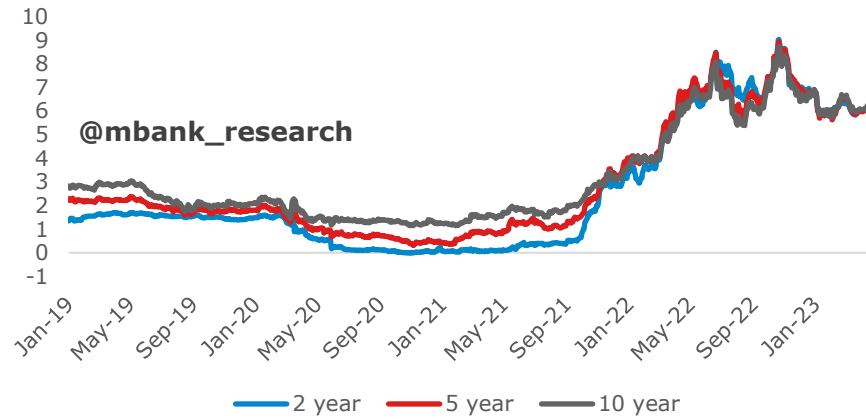
Wage bill



Source: Own elaboration based on Statistics Poland, ZUS Statistical Portal.

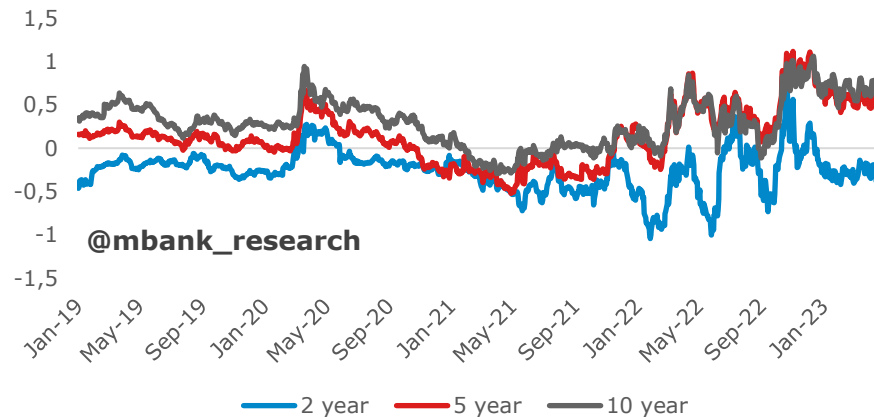
Poland: Interest rates

POLGBs



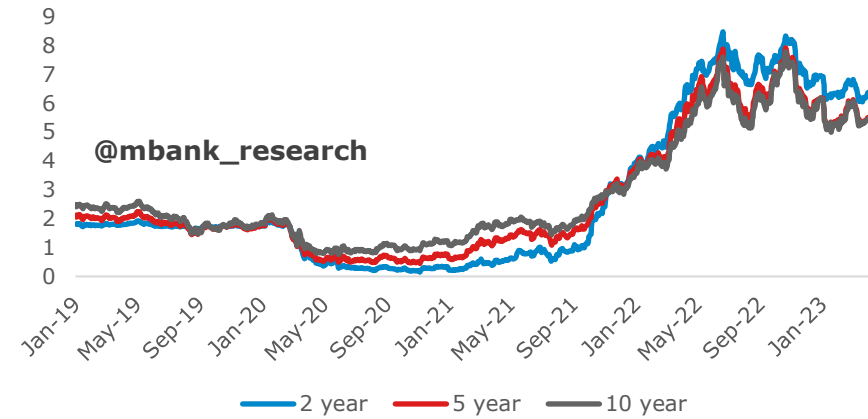
Source: Bloomberg.

ASW spread



Source: Bloomberg.

PL IRS



Source: Bloomberg.

POLGB yield minus 3m WIBOR



Source: Bloomberg.

Poland: Fiscal & external outlook

Fiscal balance

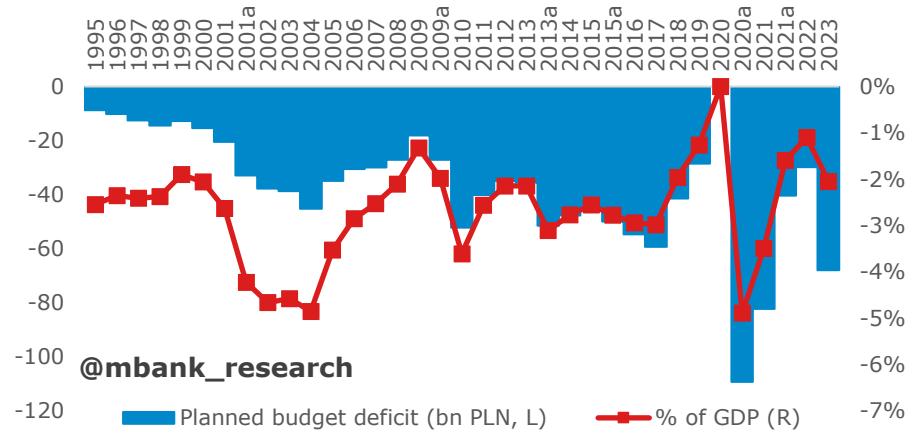
- ❖ After February there was a PLN 47 million deficit in the central budget. That is quite an unusual situation because deficits are much more typical closer to the end of the fiscal year. Nevertheless, it had something to do with abundant tax refunds as a result of the Polish Deal 2.0. The Ministry of Finance also informed that the Polish state debt level increased by PLN 28.5 billion as of the end of February compared to the previous month.
- ❖ In the previous edition of the Monthly Pulse Check we mentioned about plans of the Ministry of Finance aimed at consolidating public finances. We have got some details since then. Namely, the consolidation is expected to begin as soon as 2024 and will be executed gradually. On top of that, it does not mean that all non-budgetary funds are to be liquidated. Instead, the plan assumes that only the biggest funds will be consolidated, i.e. the COVID-19 Response Fund, or the Aid Fund. The Ministry of Finance has yet to arrive at a conclusion what to do with maturing bonds issued by either the Polish Development Fund or the BGK. So, no one can be sure that these bonds will be replaced by those issued by the Ministry of Finance itself.
- ❖ The Ministry of Finance announced that the 0% VAT rate for food products will stay in place until the end of 2023. That was our assumption when we were preparing our inflation forecast at the beginning of the year.
- ❖ Over the past few weeks, the Ministry of Finance raised a lot of funds. First and foremost, it issued USD 5 billion of 10Y and 30Y Eurobonds (USD 2.5 billion each) within the SHELFF program. A few days before this offering the Ministry of Finance expressed its willingness to increase the maximum threshold of bonds issued under the SHELFF program to USD 8 billion from USD 4 billion. The Ministry of Finance sold USD 3 billion of bonds under this program back in November.
- ❖ Beside the Eurobond offering, the Ministry of Finance sold over PLN 13 billion of bonds in the Polish market (in two outright auctions held in March and April). Another outright auction is to be held on Friday April 21. The Ministry of Finance plans no switch auctions this month. In the plan sketched out at the beginning of this quarter, the MoF announced that it is going to raise between PLN 20 and PLN 35 billion in Q2. After all these auctions, the level of financing gross borrowing needs stands at ~77%.
- ❖ The announced plan also assumes as much as 5 BGK bond auctions. However, it is not clear that any of these auctions will actually take place given the fact that the BGK cancelled a few auctions in the past weeks.
- ❖ Graphical summary of current fiscal data in next two slides ([here](#) and [here](#)).

External balance

- ❖ The February current account data took us by surprise printing a huge EUR 2.6 billion surplus. It was mainly due to a surprising 5.4% YoY decline of goods imports with goods exports slowing only moderately compared to January. Nothing changed when it comes to the services sector – a surplus is being increased almost month by month. As a result, the current account deficit – measured by the 12-month rolling sum – shrank to 1.8% compared to 3% as of December 2022. The net flow of FDI decreased slightly to 3.6% from 3.9%. Thus, after taking into account these flows the CA surplus increased to 1.1% from 0.9% in January. Looking forward, we expect the external positions should be improving gradually mainly on the back of weaker imports. However, the backdrop could change from Q3 onwards once economic activity starts rebounding again.
- ❖ Graphical summary [here](#).

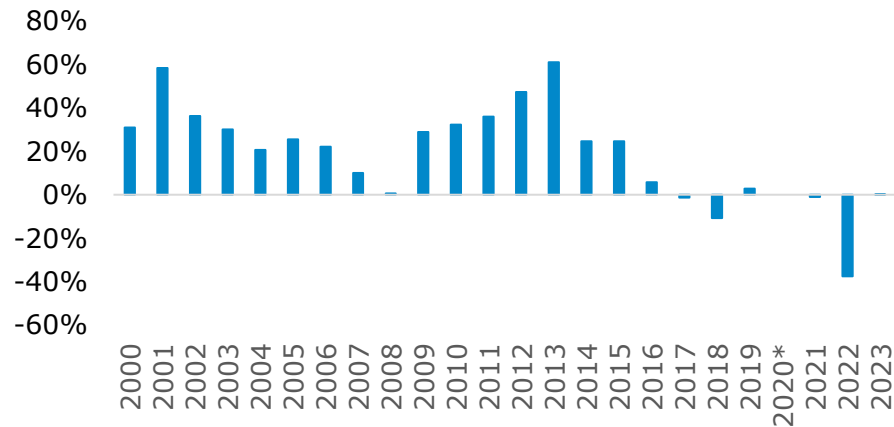
Poland: Fiscal monitor #1

Planned budget deficit



Source: Ministry of Finance, a – budget novel.

Central budget deficit in February vs yearly planned deficit



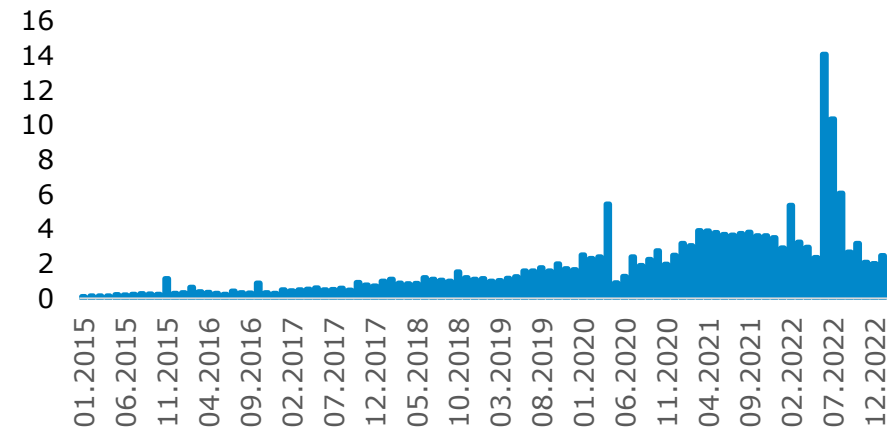
Source: Macrobond, * in 2020 there was 0 budget planned, negative value means surplus.

State debt servicing costs (% GDP, quarterly)



Source: Macrobond.

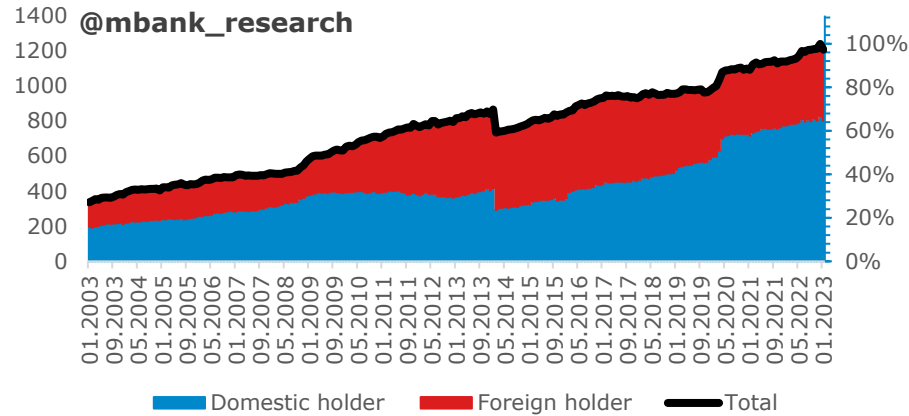
Retail bonds sold per month (PLN bn)



Source: Ministry of Finance.

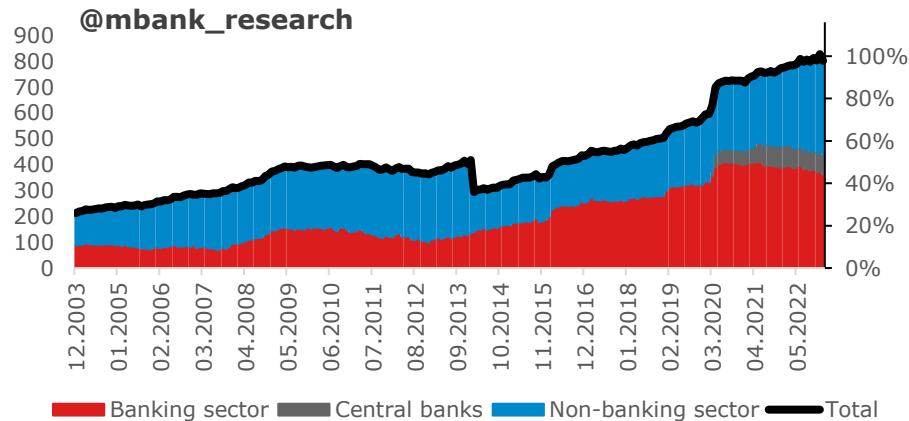
Poland: Fiscal monitor #2

State treasury debt by holder #1*



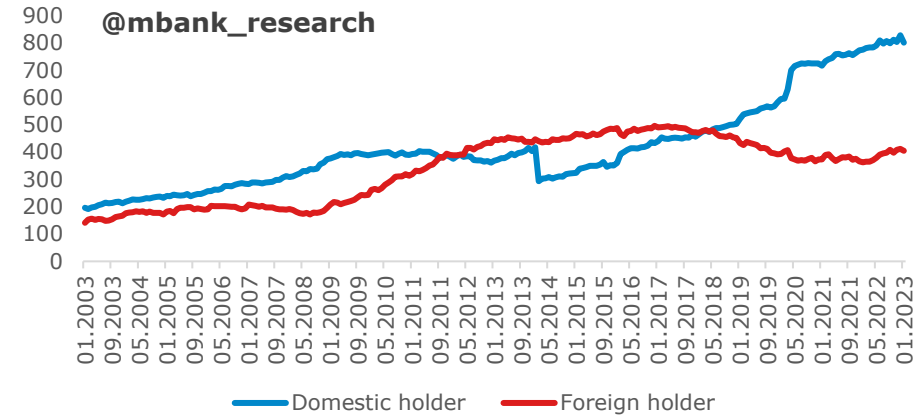
Source: Macrobond

State treasury debt – domestic holders*



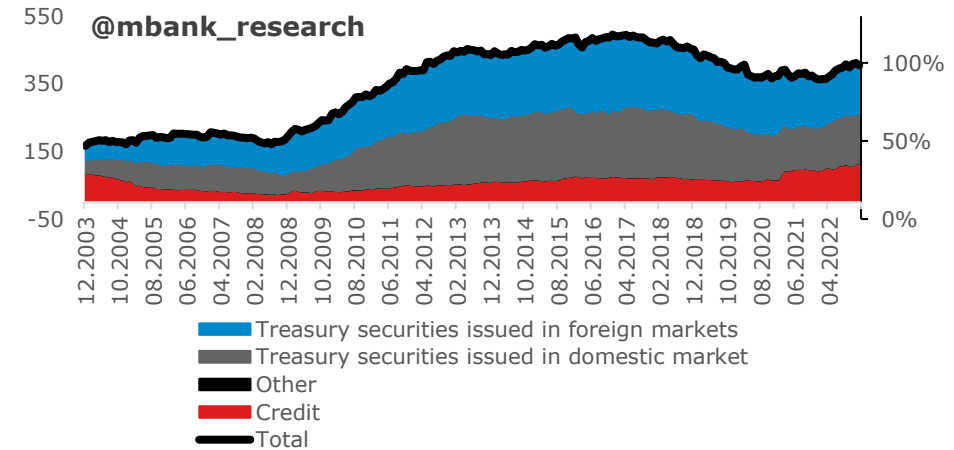
Source: Macrobond

State treasury debt by holder #2*



Source: Macrobond. *Last reading: September 2022

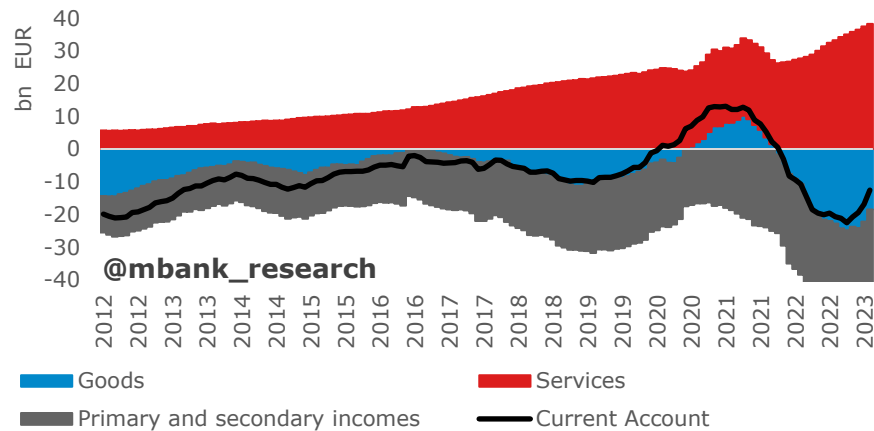
State treasury debt – foreign holders*



Source: Macrobond. *Last reading: September 2022

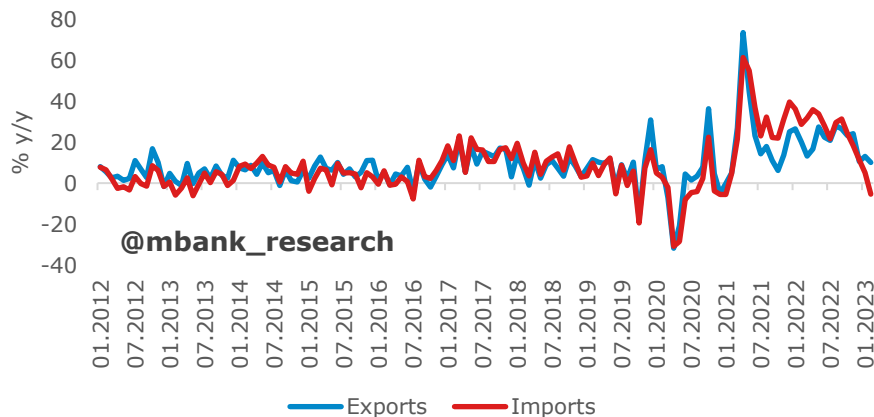
Poland: External balance monitor

C/A decomposition – 12m rolling sum



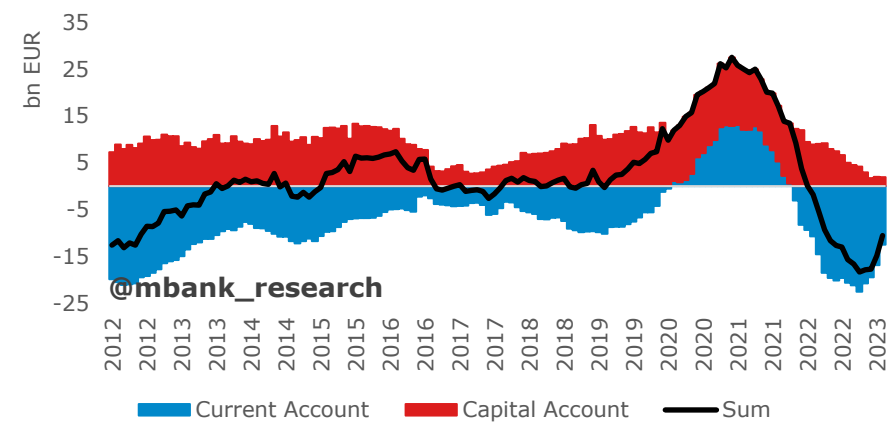
Source: Own elaboration based on NBP.

Exports and imports dynamics



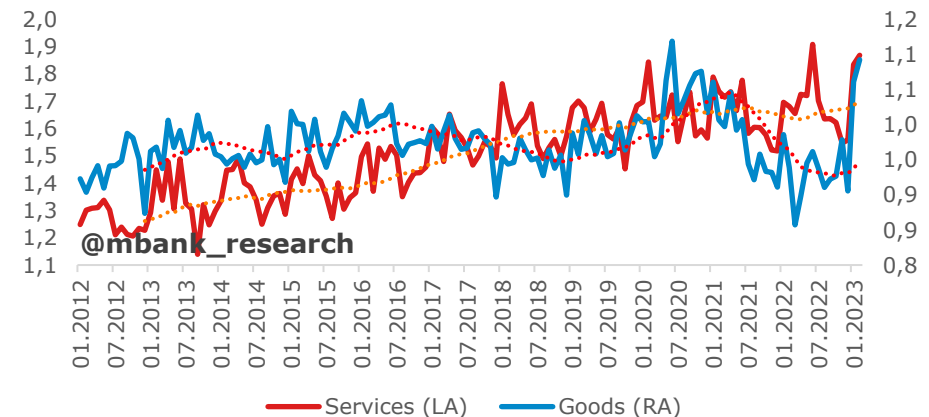
Source: Own elaboration based on NBP.

Current and Capital Account – 12m rolling sum



Source: Own elaboration based on NBP.

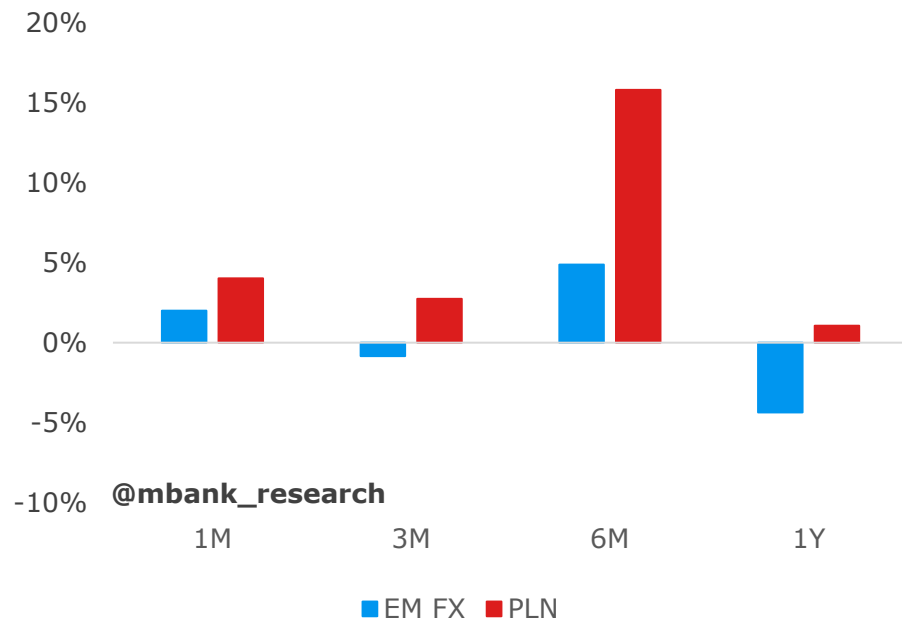
Exports to imports ratio



Source: Macrobond.

Poland: A PLN conundrum stays intact

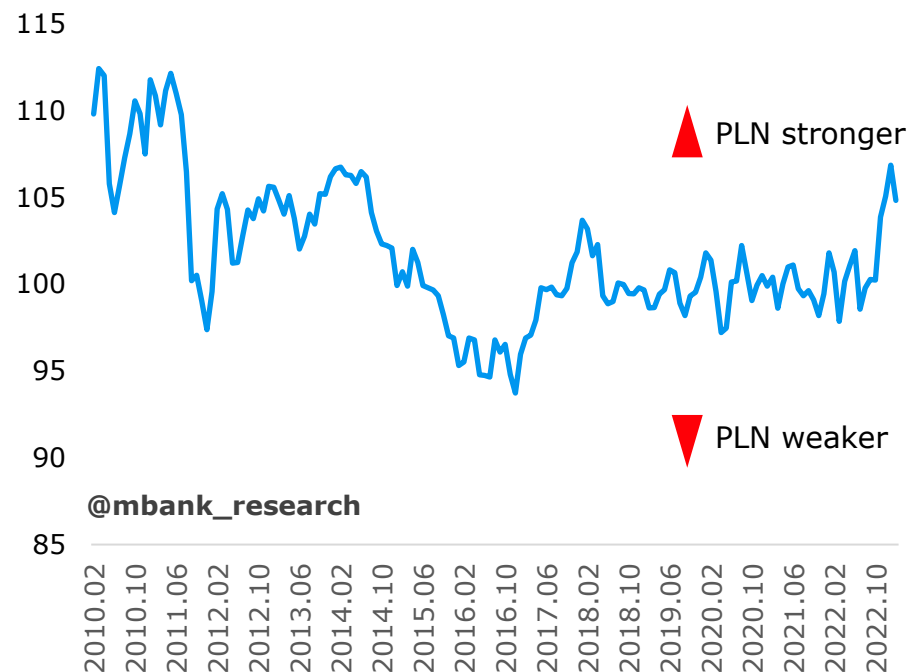
The zloty has outperformed its peers in recent months



Note: Increase = appreciation to dollar. Decrease = depreciation to dollar

Source: Bloomberg.

Real effective exchange rate (mind the dates)



Source: BIS.

We wrote about the PLN resilience to global headwinds in the last edition of our Monthly Pulse Check. Nothing has changed since then. The Polish currency strengthened over the past month or so and clearly outperformed its peers. This upbeat outcome is even better seen when we look at a longer-term timespan. Its strength cannot be solely explained by the weaker US dollar (the EURUSD managed to break through a 1.10 handle in the meantime). Hence, we stick to our view that it can have something to do with money flows and investors' fear about the surging financing cost we saw last year. For now, we do not see too many reasons that could reverse the latest PLN strength in a meaningful way. It is also worth noting that the REER moved down a bit in February, thus decreasing pressure on trade competitiveness.

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